Institutional Environment, Entrepreneurial Self-efficacy and Orientation for SME in Nigeria

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Received: October 31, 2019; Accepted: January 9, 2020; Published: August 25, 2020

Abstract: The economic performance related implications of entrepreneurship and entrepreneurship based SMEs are questionable in the Nigeria context due to lack of entrepreneurial tendency and mismatch between education acquisition and market-based skills requirement; lack of proper institutional infrastructure that facilitates in creation, identification and exploitation of opportunities and acquisition of resources. This research reviews the role of entrepreneurial self-efficacy and institutional environment in entrepreneurial orientation and development of a successful entrepreneurship-based SME. The aim is to integrate the institutional environment, self-efficacy, to address the aforementioned challenges to entrepreneurship-based SME’s development. The review encouraged the role of entrepreneurial self-efficacy and institutional environment in the development of a successful entrepreneurship-based SME. Entrepreneurship, regardless of social, economic and geopolitical circumstances, is a critical engine for sustainable economic growth. Entrepreneurship is frequently considered as a remedy to the severe global sustainability challenges by both scholarly as well as practitioner-based research findings. Entrepreneurship itself is an outcome of a set of human characteristics that enables one to identify, exploit and even create market opportunities related to incremental growth. These characteristics enable entrepreneurs to comprehend and utilize the known and familiar tactics to market-related prospects while simultaneously trying to identify new opportunities and approaches that lend efficiency. Nevertheless, the production and operation of a successful small and medium-sized enterprise (SME) enterprise is a major concern.

Keywords: Entrepreneurial Orientation, Self-efficacy, Institutional Environment, SMEs, Nigeria

1. Introduction

Entrepreneurship literature in lieu of small and medium (SME) enterprise signifies extensive potential for theoretical research and practical implications in the Nigeria [1, 2]. Scholars acknowledge the massive share of entrepreneurship-based SMEs in the economic development of nations ([2-4]. Following researchers including [2, 3, 5, 6] endorsed that the growth of an economy is momentously associated with an increase in the entrepreneurship-based SMEs. In a global perspective, this line of enquiry is further corroborated by Eniola and Entebang [1], Eniola [3], Wymenga, et al. [7] that SMEs show huge contribution to the economic growth of the countries. For instance, SMEs’ share is 98% of the total businesses and ensure approximately 67% employment in Europe as found by Wymenga, et al. and De Kok et al [7, 8]. The aforementioned sources also indicate that from 2002 to 2010 SMEs in European Union showed an 85% growth in employment and they were responsible for 99.8% of all the non-financial business-related activities. Only in UK according to report, SMEs featured 99.9% of the business sector (private) activities. Entrepreneurship based SMEs without doubt have a huge contribution towards the sustainable development of an economy. This is the reason that there is a worldwide emphasis on SME’s for sustainable economic development at both the industrial and economic levels [9, 10]. However, the economic performance related implications of entrepreneurship and entrepreneurship based SMEs are questionable in the Nigeria context because of the two aforementioned factors; lack of entrepreneurial tendency and mismatch between education acquisition and market based
skills requirement; lack of proper institutional infrastructure that facilitate in creation, identification and exploitation of opportunities and acquisition of resources [11-14].

Keeping in view the unique context and typical social, political and economic context of Nigeria this paper builds its approach towards empirical research investigation on the following assumptions; as argued by Bandura [15] who position that people judge their capacity for challenging activities more in terms of their perceptions of the knowledge, skills, and strategies they have at their command than solely in terms of how much they will exert themselves. Consistently, the study assumes that the entrepreneurial intentions are at least in part a function of the entrepreneurs’ self-efficacy. That both formal and informal institution has a role in economic development through entrepreneurship base SME development. Therefore, institutional environment may positively moderate the relationship between entrepreneurial self-efficacy, entrepreneurial orientation and SME development [16, 17], and; that the mentioned assumptions may hold true in a typical capitalist market structure but is still questionable and require further research investigations in the political, social and religious context of Nigeria. Having said that, it is pertinent to provide a comprehensive summary of the Nigeria context and associated research gaps with respect to entrepreneurship, institutions and their role (if any) in SMES development.

It is without doubt that entrepreneurship-based SME sector development may offer very promising prospects for the currently stagnant economy of Nigeria. Since 2015, economic growth remains muted and Oil price volatility continues to influence Nigeria’s growth performance [18]. The current economic downfall due to persistent decline in oil prices have led to a policy makers’ understanding that without an active private sector contribution; primarily through entrepreneurship based small and medium enterprise Nigeria’s economy may not sustain for longer run.

However, the country lags on the two critical requirements for developing an effective entrepreneurial class. These two factors relate to the entrepreneurial behaviour and market infrastructure and/or institutional environment of the nation. First, entrepreneurship as a process require certain dynamic capabilities that enables individuals identify and exploit and/or create entrepreneurial opportunities within a facilitating institutional infrastructure, to develop a sustainable SME [19]. Secondly, both scholarly and practitioner research frequently endorse that individual and organizational performance (SMES in this case) is an outcome of certain behavioral characteristics [20-23] and that effect of entrepreneurial actions and behaviors is mediated by individuals’ motivation derived from his/her perceived competence/efficacy. Thirdly, the aforementioned source also identified a moderating effect of the individual’s abilities in the form of skills and resources, financial and other, which are a primary function of the market infrastructure and other facilitating institutions.

Nigeria as mentioned earlier lacks the required set of characteristics and skills in current generation. The ‘rentier’ economy suffers from the often cited “Dutch Disease” syndrome [24-26]. As a result, multiple challenges have arisen including; poorly developed private sector, lack of skilled labor force, and a mismatch between the education and market needs in addition to many [11, 27, 28]. In addition, due to the generous public support policies of the government trying to earn good will have caused a non-entrepreneurial attitude in the Nigeria Youth. This is the reason that the current generation that comprises of the 50% of population, [29], have greater tendency to join public sector organizations rather than approaching private sector.

Moreover, prolonged and heavy reliance on natural resources, petroleum products, have led to the lack of proper market development policies retarded the evolution of a proper market and institutional infrastructure that facilitates SME development. The oil sector’s constituting a massive 94.1% of the country’s exports [30]. According to the above-mentioned government statistics about 80% of the obstructions to SMEs are created by either lack of proper institutions or improper policies of the existing institutions. Keeping in view the back ground emphasized above and the aforementioned assumptions associated with entrepreneurship-based SME, the broader purpose of this research is reviewing the role of entrepreneurial self-efficacy and institutional environment in entrepreneurial intentions and SME development. The study is significant as it would encourage the role of entrepreneurial self-efficacy and institutional environment in the development of a successful entrepreneurship-based SME.

2. Literature Review

2.1. Entrepreneurship, SMEs, and the Dutch Disease Syndrome

Nigeria is the largest oil exporter in Africa with 94.1% of total exports and generates around 90% of its revenue [30, 31]. As mentioned earlier heavy reliance on oil resources have led to multiple challenges. The unemployment rate as at September 2018 stood at 23.1% in spite of the fact that the country boast of youthful population comprising 53.2% of the youth aged between 15-65 of the country [29, 30]. The above indicate the wide disparity between the skill requirement in the market and Nigeria curriculum [11]. In fact, this mismatch between the graduate level education and market related workforce need have led to public sector job seeking behavior in the youth [10].

The recent decline in Nigeria economy can clearly be attributed to the reduction in the oil prices. Another devastating factor is that reduction in government expenditure has led to a significant reduction in private sector activities as they are also dependent on government spending. The situation is alarming and calls for alternative approaches that may facilitate economic diversification and growth of entrepreneurship [27, 28].

The current economic situation in Nigeria can be explained through the commonly known adverse relationship between
natural sources and national economic development called as “Dutch Disease Syndrome”. Government has failed historically to properly relocate massive revenues earned from oil resources to put the country on a diversified path of sustainable economic development [14, 27, 32]. The heavy reliance on oil reserves and formulation of policies based on the oil-based revenues led to the challenges that the country is now facing in terms of mismatch between education and market needs leading to unemployment and government job seeking behavior, reliance on foreign products; lack of a competent private sector, rent seeking behavior a less diversified economy that is suffering because of the current drop in oil prices [33, 34]. The identified factors run in a vicious circle where they synergistically complement each other that cause further economic instability. Pacheco, et al. [35], suggest that entrepreneurs and especially, green entrepreneurs have the ability overcome poor market incentives and institutional hurdles by creating sustainable opportunities and drive out global competitive sustainability. Contrarily, this paper contend that at least in the specific, social cultural and religious context of Nigeria; without proper education and removal of social cultural traits and market norms that hinder entrepreneurial orientation, young entrepreneurs may lack the optimal level of self-efficacy to create or even identify such opportunities [14]. One typical example of the strength of the traditional industrial norms is called 'Wasta in Middle East’ 'Piston in French or Big Man in Nigeria context [36, 37]. Having its roots from the social trait ‘trust’ big man is a typical character in the culture and especially, Nigeria where a social network based on family and social relations plays a vital role in the success of an SME. The term assigns social and personal power and influence to the entrepreneur in decision making, resource acquisition and trade related interaction in the product market [38].

The paper at this point does not contradict the recent progress in entrepreneurship theory and institutional economics [39-44] that may guide in how sustainable entrepreneurs may overcome these market related setbacks and create opportunities that may lead to sustainable development. But as discussed above the ground realities question the existence and ability (if there exist few) of youth to become one such entrepreneur and that institutions, both formal and informal, and institutional change are often considered a critical aspect of sustainability transitions studies and their relevance have been explored in various contributions [45-49]. It is within a specific context where policies and institutions formulate system of legal, economic and sociocultural challenges that an entrepreneur must face while contributing towards growth and development of his/her SME. Discussed further, is the details on the role of entrepreneurial self-efficacy and institutions, both formal and informal, in developing a successful entrepreneurship-based SME sector.

The relationship between entrepreneurial self-efficacy and SME development has been investigated in many previous studies. The model is contemporary in view of the following research realities. “First, the literature entrepreneurship is still in search for a clear analytical framework that makes explicit what is cause and what is effect [50]. This literature has primarily produced long lists of factors that enhance entrepreneurship. Those lists contain usual suspects like human capital, education, universities [51, 52], access to knowledge, supply of (risk) finance, (private and public) customers, a wide range of support organizations (including infrastructure), regulatory frameworks (like laws or tax incentives), leadership including role models [53, 54], and cultures that enhance entrepreneurial activity, like high tolerance of risk and failure, an open attitude towards experimentation, and a positive image of entrepreneurs [53]. These lists of elements have been investigated in the entrepreneurship literature before, which makes it rather unclear what the value-added of introducing a new concept like entrepreneurship ecosystem is in the first place. And when these elements are presented as a complex ecosystem in which all elements are perceived to influence each other, as often happens in the EE literature, it becomes extremely complex to disentangle what causes what”? Third, studies in entrepreneurial ecosystem often tend to focus on a particular place or cluster to describe the particular features of such a holistic infrastructure. Although empirical investigations have showed large differences in the rates of entrepreneurship across regions [55, 56], it is not entirely clear how the entrepreneurship ecosystem can explain such differences between regions.

The conceptual framework of our study would examine the relationship between entrepreneurial self-efficacy, entrepreneurial orientation, and SME development by adopting the planned behavioural theory and the theory of self-efficacy. Bandura [15], Bandura, et al. [57], Wood and Bandura [58] argued that the beliefs of an individual to effectively accomplish a particular task strongly affect his / her intention and conduct. In addition, behavioural control perceived by researchers, which can be compared with certain aspects of entrepreneurial orientation, can be seen as a background to intentions and behaviours [59]. Researchers show that there is a link between attitudes toward, ability to act independently, in terms of autonomy, setting up a business project, motivation, all based on proactiveness, and actually setting up a business (risk-taking) [59-61]. Similarly, when it is applied to plan behaviour theory, it could be claimed that entrepreneurial orientation is similar to behavioural attitude, as it shows entrepreneurial intention that suggests one's inclination to become an entrepreneur. Fishbein and Ajzen [22], Ajzen [62] indicate that a person's belief in power not only influences behavioural attitudes and perceived regulation of behaviour, but also affects their intent and behaviour. Ismail, et al. [63] suggest that entrepreneurial orientation is required to promote entrepreneurial and SME development activities in an economy in addition to entrepreneurial purpose. Thus, besides a direct relationship between entrepreneurial efficacy and entrepreneurial orientation, entrepreneurial orientation mediates the influenced of entrepreneurial self-efficacy through attitudes towards entrepreneurship development and perceived behavioural control. Based on literature review, the
conceptual framework was implemented to develop research hypotheses.

### 2.2. Entrepreneurial Self-efficacy and SMEs Development

Recent scholarly literature frequently endorses ambidexterity as a fundamental character in successful entrepreneurs. It is the ability of entrepreneurs to effectively identify and capitalize on the market opportunities [64]. The authors recommend further research investigation into this individual entrepreneurial behavior. Fang, et al. [65] posit that the characteristics enables entrepreneurs to comprehend and utilize the known and familiar tactics prospects while simultaneously trying to identify new opportunities and approaches that lends efficiency. That is why the character drives the growth and makes business sustainable.

Self-efficacy is one’s belief in his competence to organize his/her cognitive strengths, motivation and sequence of actions in a way that lends him/her control over life events [58]. Individuals with low self-efficacy tend to avoid building competencies or taking risks while high self-efficacy on the contrary may instill perseverance, effort and confidence in individuals [66]. Therefore, consistent with the concept of ambidexterity scholarly research frequently endorses Entrepreneurial Self-efficacy (ESE) as the key driver for the launch of a new SME. ESE to them is the entrepreneurs’ self-concept of being capable to perform a task that enables them develops a sufficient drive to act [67-70]. Although, there exists empirical evidence about the association of ESE with entrepreneurial performance related outcomes, for example (Forbes, 2005) identified that the abilities of entrepreneurs to make comprehensive strategic decisions was significantly influenced by their ESE. Similarly, McGee, et al. [69], Luthans and Ibrayeva [71] found the evidence about the direct and mediating effect of ESE on performance in the context of transition economies. However, the impact of ESE on venture performance is not sufficiently clear [72-74] and require further context specific empirical investigations [75]. This investigation is particularly important in the Nigeria context because as summarized earlier the mismatch between education acquisition and market based skills requirement has led to a lack of entrepreneurial tendency and/or orientation [11, 12, 14]. Researchers contend that the entrepreneurial intentions/orientation is critical in translating entrepreneurial traits (self-efficacy in this case) into firm level outcomes [74, 76-81]. Contrary to Richard, et al. [82] who consider entrepreneurial orientation a firm level construct, this paper does not differentiate between entrepreneurship and entrepreneurial orientation. However, it does agree at the same time with the argument entrepreneurial is a process construct and is related to the strategic approach and activities (decision making, methods, practices) of managers [82, 83]. Therefore, based on the upper echelon perspective projected by Hambrick and Mason [84], this paper interprets entrepreneurial orientation as the intentions of entrepreneurs and not the firm. That it is the propensity of individuals create and or identify market-based opportunities and proactively respond through innovation and risk taking while establishing a new small and medium enterprise.

### 2.3. The Role Formal and Informal Institutions

Multiple empirical sources acknowledge the view, that the causal link of entrepreneurial orientation with performance related parameters is dependent upon the external environmental factors like market infrastructure and other formal and informal institutions [85-88]. By adhering to the North [43] view from institutional economics, this research interprets institutional environment as consisting of both the formal and informal (explicit and implicit) rules and norms that govern decision making, define and design opportunities, specify risk, identify collaborations and networking and set the pace of the entrepreneurial activities. Institutions are the constraints devised by humans that set the rule of the game for entrepreneurial activities and hence their outcomes in the form of successful SMEs [43, 89]. The North’s view related to successful new venture creation within the institutional context is endorsed by multiple scholars in entrepreneurship literature [17, 90-95]. However, recent research in transition economies suggest that even within deficient formal and informal institutions countries have shown enormous growth in entrepreneurship based institutions and entrepreneurial investments [96, 97]. China is a typical case in point. Scholars identify that despite the general research assumption that institutional environment is improving in transition economies; this is not actually the case [98].

The growth of entrepreneurship and the associated enterprise has always been a paradox for researchers [99-101]. Although the level of market competition, rule of law, and business environment are considered as unfriendly to business, the country has witnessed one of the world’s highest growing entrepreneurship class. The paradox has attracted significant scholarly and practitioners’ interest into Chinese startups and the way its institutional environment affects SMEs’[101, 102] performance [98, 103, 104]. The case of Nigeria is more complicated than China as the country’s abundant natural resources and religious tourism together with democracy political system and unique social cultural environment may further intensify the need for research into the entrepreneurship based phenomena. Negligence of the social drivers leading to organizational actions by efficiency theories is the fundamental reason for the dissatisfaction of the proponents of institutional perspective in entrepreneurial processes. The perspective that projects the role of norms, beliefs and rules on organizational perspective and that these factors vary widely across borders and cultures [65, 106]. These factors become much important in a market context like Nigeria where the religious, political, social cultural and economic perspectives question the ability of typical capitalist approaches towards entrepreneurship.

### 3. Conclusions

Entrepreneurship is frequently considered as a remedy to the severe global sustainability challenges by both scholarly as well practitioners-based research findings. However,
entrepreneurship itself is an outcome of a set of human characteristics that enables one to identify, exploit and even create market opportunities related to incremental growth. These characteristics enables entrepreneurs to comprehend and utilize the known and familiar tactics to market related prospects while simultaneously trying to identify new opportunities and approaches that lends efficiency. This research primarily aimed to review the causal connection between entrepreneurial self-efficacy and SME development in the context of Nigeria. This research provides several theoretical and practical contributions.

One of the key themes of Nigeria’s Vision 2030 is a keen focus on enhancing the capacity and skills to increase the quality and reliability of industrial sector. In this regard the central focus is on utilizing and adapting the legal, financial and other private institutional infrastructure to optimize business environment especially for small and medium enterprise development. The fundamental concern is to develop and groom Nigeria economy from a rentier estate to an internally groomed market based self-sufficient economy. In this regard this research suggests policy formulation that effectively integrates the aforementioned institutions into education and market context that may help in building, grooming and facilitating Nigeria youth into capable entrepreneurs. In addition, consistent with theory of planned behavior Ajzen (1985), the research endorses the fact that institutions must support youth and entrepreneurs to develop and portray positive market based attitude towards the development of private sector based on small and medium enterprise. This is particularly relevant in Nigeria context where market and social norms hinder entrepreneurial attitude in the young graduates [11, 12, 37].

References


